

## Message Text

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PAGE 01 EC BRU 02551 211903Z

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SUBJECT: EC COMMISSION AND PERMREP COMMENTS ON THE FINANCE  
COUNCIL MEETING OF MARCH 18

REF: A) EC BRUSSELS 2447

B) EC BRUSSELS 2115

1. BEGIN SUMMARY: COMMISSION OFFICIALS BELIEVE THE EC FINANCE COUNCIL'S DECISION TO ADOPT A NEW UNIT OF ACCOUNT MADE UP OF A BASKET OF EC CURRENCIES REPRESENTS A STEP FORWARD FOR THE COMMUNITY. ALTHOUGH THE NEW UNIT HAS ONLY LIMITED APPLICABILITY AT THE PRESENT TIME, THE COMMISSION EXPECTS ITS USE WILL BE BROADENED IN THE FUTURE. THE FINANCE MINISTERS, HOWEVER, EVINced LITTLE INTEREST IN ENLARGING THE EC'S ROLE IN MONETARY MATTERS. THEY WERE GENERALLY AGAINST STRENGTHENING THE EUROPEAN MONETARY COOPERATION FUND. END SUMMARY.

2. UNIT OF ACCOUNT (U.A.): COMMISSION OFFICIALS CONSIDER IT AN IMPORTANT FINANCIAL STEP TO OBTAIN THE COUNCIL'S AGREEMENT TO ADOPT A U.A. BASED ON AN EC MARKET BASKET OF CURRENCIES FOR SOME EC INSTITUTIONS. (SEE EC BRUSSELS 2115 FOR A DESCRIPTION OF THE NEW U.A.) PERMREP SOURCES SAY THAT THE BRITISH  
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PAGE 02 EC BRU 02551 211903Z

AND DANISH TECHNICAL RESERVATIONS ARE MERELY FORMALITIES AND THE

NEW U.A. WILL BE FORMALLY ADOPTED WITHIN A FEW WEEKS. (UK SOURCES INFORM US THAT THE HOUSE OF COMMONS COMMITTEE WHICH SCRUTINIZES SUCH MATTERS HAS ALREADY GIVEN ITS APPROVAL TO THE PROPOSAL.)

3. COMMISSION OFFICIALS BELIEVE THE NEW ACCOUNTING TOOL WILL EVENTUALLY BE BORADLY APPLIED. THE COMMISSION HAS THE AUTHORITY TO CHANGE THE U.A. FOR THE EUROPEAN COAL AND STEEL COMMUNITY (ECSC). AFTER CONSULTING WITH THE EC FINANCE COUNCIL, IT PLANS TO ADOPT THE NEW U.A. FOR THE ECSC TO BE EFFECTIVE BEGINNING NEXT YEAR. THE COMMISSION ALSO INTENDS TO PROPOSE, PROBABLY IN SEPTEMBER, THAT THE NEW U.A. BE APPLIED TO THE EC'S BUDGET. THE COMMISSION PREFERS TO WAIT UNTIL AFTER THE BRITISH REFERENDUM BECAUSE CHANGING THE BUDGET'S U.A. WILL ALTER MEMBER STATES' BUDGETARY CONTRIBUTIONS AND RECEIPTS. THE FRG PERMREP ESTIMATES, FOR EXAMPLE, THAT THE NEW U.A. WOULD REDUCE ITS BUDGETARY CONTRI- BUTIONS THIS YEAR BY THE EQUIVALENT OF \$350 MILLION. ON THE OTHER HAND, COUNTRIES WHOSE CURRENCIES HAVE DEPRECIATED WOULD HAVE TO PAY MORE. COMMISSION OFFICIALS ARE AWARE THAT THESE FINANCIAL IMPLICATIONS CREATE POLITICAL PROBLEMS WHICH MUST BE RESOLVED BEFORE THE NEW U.A. CAN BE APPLIED TO THE BUDGET AND THE CAP. COMMENT: THE COMMISSION WILL FACE STIFF OPPOSITION TO APPLYING THE NEW U.A. TO THE BUDGET, ESPECIALLY FROM THE UK AND ITALY. IT WILL PROBABLY BE A LONG TIME BEFORE THIS PROPOSAL IS ADOPTED (SEE REF A). END EOMMENT.

4. SHOULD THE NEW U.A. MEET THE TEST OF MARKET PLACE, COMMISSION OFFICIALS EXPECT THAT IT WILL BE USED IN OTHER ACCOUNTING TRANSACTIONS. IF A LEADER WANTS TO DIVERSIFY HIS INVEST- MENT PROTFOlio, FOR EXAMPLE, HE MIGHT PURCHASE SECURITIES DENOMINATED IN THE NEW U.A. THE COMMISSION IS CONSIDERING USING THIS U.A. FOR ITS PROPOSED EUROPEAN COMMON BORROWING FACILITY. SOME COMMERCIAL CONTRACTS MIGHT ALSO BE DENOMINATED IN THE NEW U.A. IN ADDITION, COMMISSION OFFICIALS HAVE RECEIVED REPORTS THAT GREECE IS CONSIDERING TYING ITS CURRENCY TO THE NEW U.A.

5. MONETARY COOPERATION: BOTH THE EC MONETARY AND CENTRAL BANK GOVERNORS' COMMITTEES OPPOSED THE COMMISSION'S PROPOSAL TO STRENGTHEN THE EUROPEAN MONETARY EOOOPERATION FUND (EMCF). THESE COMMITTEES THOUGHT EXISTING INSTITUTIONS COULD ADEQUATELY HANDLE EC MONETARY COORDINATION. THE EUROPEAN PARLIAMENT, LIMITED OFFICIAL USE

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PAGE 03 EC BRU 02551 211903Z

HOWEVER, FAVORED THE COMMISSION'S PROPOSAL. MOST OF THE FINANCE MINISTERS SPOKE OUT AGAINST THE EMCF PROPOSAL AND OFFICIALS HERE EXPECT THE COUNCIL TO TURN IT DOWN AT ITS APRIL 21 MEETING. NEVERTHELESS, VICE PRESIDENT HAFERKAMP INTENDS TO PUSH AHEAD WITH THE PROPOSAL BECAUSE HE REPORTEDLY BELIEVES THE EMCF SHOULD BE GIVEN A ROLE IN COORDINATING EC MONETARY POLICY. GREENWALD

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